

Report on

Market Conduct Examination

of the

Liberty Mutual Fire Insurance Company  
Safeco Insurance Company of America

Boston, Massachusetts

by Representatives of the  
North Carolina Department of Insurance

as of

July 14, 2015

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Raleigh, North Carolina  
July 14, 2015

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Department of Insurance  
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Honorable Roger A. Sevigny  
Commissioner of Insurance  
Department of Insurance  
State of New Hampshire  
21 South Fruit Street, Suite 14  
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Honorable Commissioners:

Pursuant to your instructions and in accordance with the provisions of North Carolina General Statute (NCGS) 58-2-131 through 58-2-134, a target examination has been made of the market conduct activities of

**Liberty Mutual Fire Insurance Company (NAIC #23035)**  
**Safeco Insurance Company of America (NAIC #24740)**  
NAIC Exam Tracking System Exam Number: NC299-M66  
Boston, Massachusetts

hereinafter generally referred to as the Companies, at the Companies' regional office located at 13830 Ballantyne Corporate Place, Suite 300, Charlotte, North Carolina and at the North Carolina Department of Insurance (Department) office located at 11 S. Boylan Avenue, Raleigh, North Carolina. A report thereon is respectfully submitted.

## SCOPE OF EXAMINATION

The North Carolina Department of Insurance conducted a limited-scope examination of the Companies. This examination commenced on March 16, 2015, and covered the period of January 1, 2013, through December 31, 2014, with analyses of certain operations of the Companies being conducted through July 9, 2015.

This examination was performed in accordance with auditing standards established by the Department and procedures established by the National Association of Insurance Commissioners (NAIC). The scope of this examination was not comprehensive, but included a limited review of the Companies' practices and procedures in marketing and underwriting practices. The findings and conclusions contained within the report are based solely on the work performed and are referenced within the appropriate section of the examination report.

It is the Department's practice to cite companies in violation of a statute or rule when the results of a sample show errors/noncompliance that fall outside certain tolerance levels. The Department applied a 0 percent tolerance level for the use of forms and rates/rules that were neither filed with nor approved by the Department, and 5 percent for all other areas reviewed. Sample sizes were generated via an Audit Command Language (ACL) program with a random sample taken from a given population. The Department utilized a 95% Confidence Level to determine the tolerance level.

## EXECUTIVE SUMMARY

This market conduct examination revealed concerns with the Companies' procedures and practices in the following area:

*Underwriting Practices* – Homeowners policies rated using incorrect territories.

Specific violations are noted in the appropriate section of this report. All North Carolina General Statutes and rules of the North Carolina Administrative Code cited in this report may be viewed on the North Carolina Department of Insurance Web site [www.ncdoi.com](http://www.ncdoi.com) by clicking "INSURANCE DIVISIONS" then "Legislative Services".

This examination identified various statutory violations, some of which may extend to other jurisdictions. The Companies are directed to take immediate corrective action to demonstrate their ability and intention to conduct business in North Carolina according to its insurance laws and regulations. When applicable, corrective action for other jurisdictions should be addressed.

All statutory violations may not have been discovered or noted in this report. Failure to identify statutory violations in North Carolina or in other jurisdictions does not constitute acceptance of such violations.

## **MARKETING**

### Policy Forms and Filings

Policy forms and filings for the Companies were reviewed to determine compliance with appropriate North Carolina statutes and rules. We reviewed the following line of business:

- Homeowners

Filings for the homeowners line of business were made by the North Carolina Rate Bureau on behalf of the Companies. Deviations for this line of business were made to the Department by the Companies.

## **UNDERWRITING PRACTICES**

### Overview

The Companies' marketing in North Carolina is directed to personal and commercial lines of business. The Companies provided the examiners with a listing of the following type of active policies for the period under examination:

- Homeowners

Each policy was reviewed for adherence to underwriting guidelines, file documentation, and premium determination. Additionally, the policies were examined to determine compliance with the appropriate North Carolina statutes and rules, policy provisions, and the applicable policy manual rules.

## Homeowners

One hundred nineteen policies were randomly selected for review from a population of 28,446. The Companies' homeowners policies were written on an annual basis. Coverages were written utilizing manual and deviated rates. Risk placement was determined by the Companies' underwriting guidelines and the underwriter. No discrepancies were noted in the Companies' use of their underwriting guidelines. All policy files contained sufficient documentation to support the Companies' classification of the risk.

The Companies did not adhere to the provisions of NCGS 58-36-30(a) and 11 NCAC 10.0602(a)(2) as ten policies were rated using an incorrect territory. All consent to rate premiums charged were within the applicable percentage increase requirement of 11 NCAC 10.0602(a)(4).

### **COMMENTS, RECOMMENDATIONS AND DIRECTIVES**

The Companies must reinforce procedures to ascertain that correct territories are used to calculate the premium for homeowners policies, including, but not limited to, determining if the insured property lies within city limits.

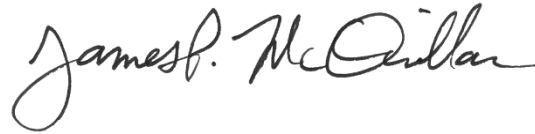
### **CONCLUSION**

An examination has been conducted on the market conduct affairs of Liberty Mutual Fire Insurance Company and Safeco Insurance Company of America for the period January 1, 2013, through December 31, 2014, with analyses of certain operations of the Companies being conducted through July 9, 2015.

This examination was conducted in accordance with the North Carolina Department of Insurance and the National Association of Insurance Commissioners Market Regulation Handbook procedures, including analyses of the Companies' operations in the areas of marketing and underwriting practices.

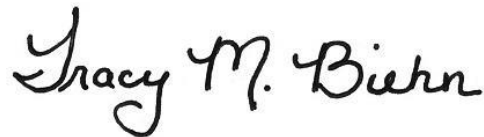
In addition to the undersigned, Larry Cook, CPCU, CIC, AU, ARe, ARM, AIM, AMIM, AIAF, AAI, North Carolina Market Conduct Examiner, participated in this examination.

Respectfully submitted,

A handwritten signature in black ink that reads "James P. McQuillan". The signature is written in a cursive style with a large, looped initial "J".

James P. McQuillan, CPCU, AIT  
Examiner-In-Charge  
Market Regulation Division  
State of North Carolina

I have reviewed this examination report and it meets the provisions for such reports prescribed by this Division and the North Carolina Department of Insurance.

A handwritten signature in black ink that reads "Tracy M. Biehn". The signature is written in a cursive style with a large, looped initial "T".

Tracy M. Biehn, LPCS, MBA  
Deputy Commissioner  
Market Regulation Division  
State of North Carolina